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Sankaty Advisors

December 2, 2010

Dear Sankaty Credit Opportunities III Investor,

We are pleased to report that COPs III returned 5.3% gross and 4.6% net of all fees and expenses in the third quarter of 2010, resulting in year-to-date returns of 18.2% gross and 15.8% net. The NAV of the Fund has significantly improved off its 2008 low to 0.83x net on an estimated basis. More importantly, relative to a year ago, we feel more optimistic about the band of potential outcomes for the Fund and we continue to believe the Fund will return its original principal plus profits over the next few years.

Market Review

In the third quarter, the leveraged loan and high yield markets rebounded from their negative performance in the second quarter. Attractive refinancing opportunities lured issuers into the market as they continued to chip away at near-term loan maturities. Heavy institutional inflows into the asset class matched the new issue supply as economic data, corporate earnings and defaults all trended better. Consequently, strong, positive momentum characterized the credit markets in the third quarter.

While much has been written about the record high-yield new issuance in 2010 and how it has helped many borrowers push out maturity dates extending their day of reckoning, the fact remains that over $160 billion of 2012-2013 outstanding debt maturities have yet to be addressed. The majority of these are good businesses that are simply overlevered, which challenges the ability to refinance. Even for those 2010 high-yield issuers fortunate enough to push out their maturities, many have not changed the over-leveraged nature of their balance sheets. In fact, CCC high-yield issuance has continued to trend upwards in 2010, which we anticipate will generate substantial new distressed opportunities. While we continue to see opportunities in the current environment, we believe that the recent new issuance as well as the existing stock of distressed credits will fuel a robust distressed cycle over the next 2-4 years, especially if the economic recovery remains relatively weak.

Portfolio Review

Our portfolio repositioning continued as we exited roughly $125 million of investments and received $65 million of pay downs during the third quarter. We invested over $220 million in new investments in the quarter, and new positions purchased in 2010 now comprise 32% of the portfolio. Through this rotation, the Fund has maintained its attractive future return profile while generating substantial profits over the past 18 months. Despite this rapid investment pace, the Fund has maintained flexibility with over $100 million of investable cash available to take advantage of any pullback in the markets.

In the stressed and distressed portfolio, we sold two large positions, Wind and Outback Steakhouse, when the bonds hit our price targets in the third quarter. In addition, Lyondell emerged from bankruptcy in the quarter, and we exited our position given the rally in the loan price. Finally, as expected, Frontier Oil repaid our second lien notes in the period following the closing of its sale to Noble Corporation.

We found a number of European opportunities in the third quarter as European banks reduced loan exposure to comply with tighter financial regulations. We purchased first lien debt in both EMAP, a leading publisher of trade magazines and a purveyor of industry conferences, and Frans Bonhomme, a distributor of plastic pipes to the construction industry. In the restructuring of Alinta, an Australian utility, we took an active role thwarting the attempts of a group of control distressed investors to take disproportionate economics for their group. Our plan, which gained the support of the vast majority of first lien lenders resulted in the best outcome for the first lien creditor class and avoided a long, contentious bankruptcy.

We continue to rotate our small public equity portfolio, exiting Children's Place (at a 1.3x multiple) and Pactiv (at a 1.4x multiple) during the third quarter after a holding period of less than a year. We added positions, such as Verint and Reliance Steel, that have low leverage, generate strong free cash flow and are industry leaders with strong competitive positions. Given our deep understanding of Lyondell, resulting from our close tracking of the company through bankruptcy, we added the position to the equity portfolio. As demand in chemicals recovers, we expect additional improvement in the business.

The table below highlights the Fund's year-to-date outperformance of its liquid asset benchmarks in loans, bonds and public equities.

COPs III YTD Liquid Credit Performance				
	Avg % of Portfolio	YTD ROA	YTD Index	
Loan	53%	20.2%	6.8%	LSTA
Bond	25%	27.3%	11.4%	JPM HY
Public Equity	22%	13.7%	3.9%	S&P 500
Total	**100%**	**21.3%**		

The third quarter proved to be active in our private market efforts as we invested in the RBS WorldPay transaction, providing mezzanine capital in support of that buyout. Given the leverage profile and business stability, we feel this private transaction provided an incremental 500-700 basis point return versus comparable public high yield alternatives.

We have had a number of positive developments for our portfolio companies in the third quarter, and have added a number of new investments to the Fund. First, we completed the sale of Fieldbrook Farms, the private label ice cream maker, in the quarter, resulting in a 33% IRR and 6x multiple on our equity investment. Second, Logan's Roadhouse repaid our loans in early October as it completed its sale to Kelso & Co. The Fund realized a 15% IRR and 1.5x multiple on the mezzanine investment. Finally, on the new deal front, we added a number of new investments to the portfolio, including Consona, a provider of enterprise software, where we

provided mezzanine debt in support of its buyout, and Elm Ridge, where we provided second lien financing secured by the company's oil and gas reserves.

The structured credit portfolio continued to deliver strong results in the third quarter. The credit profiles of the underlying portfolios have improved dramatically with the rally in credit and low default rates. The CLOs continue to make equity distributions, and we anticipate further distributions in the fourth quarter, including a $20 million distribution from SSS.

Outlook

Given the trading flexibility and the $100 million of investable cash in the Fund, we will look to redeploy capital into new opportunities and exit investments where we hit our price targets. We should continue to see attractive opportunities in Europe coinciding with the renewed focus on the financial stability of European banks. In addition, our middle market portfolio companies have a strong acquisition pipeline where, if successful, we could greatly enhance returns on our equity positions in those companies.

In an effort to continue to provide better service to our partners, we are pleased to welcome two new senior professionals to our Investor Relations team, Dorothy Crocker (dcrocker@sankaty.com) and Tom Sargeant (tsargeant@sankaty.com). Dorothy will be based in our New York City office while Tom joins the Sankaty team in London, which will enable us to provide more timely service to our European and international investors.

Attached is a snapshot of the current portfolio and our positioning. As always, we are available to discuss any of this information or answer any questions you may have. Please feel free to contact us directly.

Sincerely,

Sankaty Advisors

SANKATY CREDIT OPPORTUNITIES III, L.P.
STATISTICAL SUMMARY
(as of September 30, 2010)

STATISTICAL ANALYSIS* [1,2]

	Q3 2010 Gross Return	Q3 2010 Net Return	2010 Gross Return	2010 Net Return	Sharpe Ratio
Sankaty Credit Ops III	5.3%	4.6%	18.2%	15.8%	0.0
S&P 500 (w/ dividends)	11.3%	11.3%	3.9%	3.9%	-0.1
JPM HY Index	6.3%	6.3%	11.4%	11.4%	0.5
LSTA Loan Index	3.3%	3.3%	6.8%	6.8%	0.3

* Net returns are net of all fees, expenses and carry.

TOP ISSUERS [3]

Top 10 Issuers (excluding Mezz & Structured)

Issuer	Fund Net Equity %
Alinta Energy	1.7%
EMAP	1.5%
Goodyear Engineered Products	1.5%
RBS Worldpay	1.3%
Camaieu	1.2%
United Components	1.1%
US Airways	1.0%
Kabel Deutschland	1.0%
Lyondell	1.0%
Accuride	1.0%

Top 5 Mezzanine Issuers

Issuer	Fund Net Equity %
Hamilton Steel Bar	3.2%
United Diamond, LP (Ulterra)	1.9%
Publishing Group of America	1.8%
BP Metals	1.7%
Charter Brokerage	1.7%

Top 5 Structured Issuers

Issuer	Fund Net Equity %
Sankaty Special Situations	3.5%
Beach Street V	1.5%
Race Point IV CLO	1.3%
Cornerstone CLO LTD	0.7%
SSS Funding II LLC	0.7%

FUND NET EQUITY ($m)

	6/30/2010	Profits	Net Contributions/ (Distributions)	9/30/2010
Partners' Capital	$1,720.4	$79.6	$0.0	$1,800.0

ITD Contributions	ITD Distributions	Net IRR*	Net Multiple*
$2,200.0	-$31.5	-6.2%	0.83

*Net IRR and Multiple are net of all fees, expenses and carry.

BALANCE SHEET (MV in $m)

	Long (A)	Short (B)	Net (A)-(B)	Gross (A)+(B)
Cash	$229.3	$8.3	$221.0	$237.6
Collateral (Restricted Cash)	86.2	0.0	86.2	86.2
	$315.5	$8.3	$307.2	$323.8
By Asset Class				
Loans	$376.7	$0.0	$376.7	$376.7
Bonds	$146.8	$0.0	$146.8	$146.8
CDS/LCDS[3]	$16.9	$28.7	-$11.8	$45.6
Mezzanine (Private Debt)	$617.9	$0.0	$617.9	$617.9
Mortgage Backed Security	$0.0	$0.0	$0.0	$0.0
Equity (Public & Private)	$206.6	$0.0	$206.6	$206.6
Structured[3]	$222.0	$0.0	$222.0	$222.0
	$1,586.9	$28.7	$1,558.2	$1,615.6
By Region				
North America	$1,206.5	$1.5	$1,205.0	$1,208.0
Europe	$335.6	$27.3	$308.3	$362.9
Other	$44.8	-$0.1	$44.9	$44.7
	$1,586.9	$28.7	$1,558.2	$1,615.6
By Industry				
Non-Industry Specific	$217.5	$0.0	$217.5	$217.5
Oil and Gas	$147.8	$0.0	$147.8	$147.8
Business Equipment and Services	$101.4	$0.0	$101.4	$101.4
Publishing	$89.8	$0.0	$89.8	$89.8
Automotive	$116.6	$27.3	$89.3	$143.9
Telecommunications/Cellular communications	$72.3	$0.0	$72.3	$72.3
Building and Development	$65.5	$0.0	$65.5	$65.5
Conglomerates	$60.1	$0.0	$60.1	$60.1
Steel	$58.5	$0.0	$58.5	$58.5
Cable Television	$49.9	$0.0	$49.9	$49.9
Other	$607.5	$1.4	$606.1	$608.9
	$1,586.9	$28.7	$1,558.2	$1,615.6
Exposure (% of Equity)**	88.2%	1.6%	86.6%	89.8%

**Exposure % is based off of total assets excluding cash.

[1] Portfolio returns are computed based on the change in value during the period of a theoretical investment made at the beginning of the period. The change in value of a theoretical investment is measured by comparing the aggregate ending value of Limited Partners with the aggregate beginning value adjusted for cash flows related to capital contributions or withdrawals during the period. Returns are geometrically linked on a monthly basis. Investment performance results depict the return of the Limited Partners of the Partnership as a whole. Investment performance reflects the reinvestment of profits, dividends and income. Net returns are stated net of all fees, expenses and carry (see footnote 2). Returns are estimated as of September 30, 2010 and are based on unaudited quarterly financial statements. As with all unaudited estimates, these estimates are subject to uncertainties and variations and may not be predictive of final results once audited. Actual outcomes and results may differ materially from the

[2] Generally, the General Partner is entitled at year-end to a carry allocation equal to 20% of Net Profits for such fiscal year as discussed in the Limited Partnership Agreement. For purposes of presentation herein, the carry allocation has been included as a periodic expense and has been calculated on the Net Profits for the period. The Management Fee is a quarterly fee paid to Sankaty Advisors, LLC generally equal to 2% of each Limited Partner's capital account at the beginning of each quarter.

[3] Single name CDS/LCDS, Tranche CDX, LCDX, Structured CDS and Index CDX/LCDX are included at notional value plus mark to market, indicative of the long or short market risk related to these exposures.